

**REPORT OF THE AUDIT OF THE
WARREN COUNTY
CLERK**

**For The Year Ended
December 31, 2008**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
WARREN COUNTY CLERK

For The Year Ended
December 31, 2008

The Auditor of Public Accounts has completed the Warren County Clerk's audit for the year ended December 31, 2008. Based upon the audit work performed, the financial statements present fairly in all material respects, the revenues and expenditures of the County Clerk and the revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Warren County Clerk had total receipts of \$25,159,070 which was a \$987,755 decrease from the prior year. Except for reimbursed expenses in the amount of \$18,487, the clerk paid 25% of receipts to the Warren County Fiscal Court in the amount of \$597,419. This was a decrease of \$33,222 from the prior year. In addition, disbursements decreased by \$987,755.

Report Comments:

- 2008-01 The County Clerk Should Submit All Official Checks To Vendors
- 2008-02 The County Clerk Should Maintain Proper Documentation Of Compensatory Time
- 2008-03 The County Clerk Should Have Expended Funds For Allowable Purposes
- 2008-04 The County Clerk Should Implement Control Procedures Over Payroll
- 2008-05 The County Clerk Lacks Adequate Segregation Of Duties And Has No Written Policy Over Accounts Receivable

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS.....	3
STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS	6
NOTES TO THE FINANCIAL STATEMENTS.....	8
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13
COMMENTS AND RECOMMENDATIONS	17



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Michael O. Buchanon, Warren County Judge/Executive
Honorable Dorothy Owens, Warren County Clerk
Members of the Warren County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the County Clerk of Warren County, Kentucky, and the statement of revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2008. These financial statements are the responsibility of the County Clerk. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer for the year ended December 31, 2008, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated December 18, 2009 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Michael O. Buchanon, Warren County Judge/Executive
Honorable Dorothy Owens, Warren County Clerk
Members of the Warren County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2008-01 The County Clerk Should Submit All Official Checks To Vendors
- 2008-02 The County Clerk Should Maintain Proper Documentation Of Compensatory Time
- 2008-03 The County Clerk Should Have Expended Funds For Allowable Purposes
- 2008-04 The County Clerk Should Implement Control Procedures Over Payroll
- 2008-05 The County Clerk Lacks Adequate Segregation Of Duties And Has No Written Policy Over Accounts Receivable

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Warren County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

December 18, 2009

WARREN COUNTY
DOROTHY OWENS, COUNTY CLERK
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2008

Revenues

State Grant		\$	19,160
State Fees For Services			34,778
Fiscal Court			28,313
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	3,410,638	
Usage Tax		11,802,415	
Tangible Personal Property Tax		7,836,891	
Web Renewals		30,220	
Other-			
Marriage Licenses		31,985	
Miscellaneous Licenses		646	
Lien Release Fees		48,546	
Deed Transfer Tax		494,378	
Delinquent Taxes		420,220	24,075,939
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		52,310	
Wills and Estate Settlements		1,928	
Real Estate Mortgages		226,409	
Chattel Mortgages and Financing Statements		223,549	
Powers of Attorney		7,368	
Lien Releases		62,366	
Leases		1,729	
Fixture Filing		1,977	
Bail Bonds		66	
Affordable Housing Trust		145,122	
All Other Recordings		40,852	
Charges for Other Services-			
Candidate Filing Fees		1,050	
Copywork		31,260	
Liens and Lis Pendens		23,266	
Notary Fees		34,010	853,262

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
DOROTHY OWENS, COUNTY CLERK
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS
For The Year Ended December 31, 2008
(Continued)

Revenues (Continued)

Other:

Miscellaneous	\$	6,387	
Postage		22,628	
Refunds/Overpayments		111,622	
Prior Year Collections		<u>3,088</u>	\$ 143,725

Interest Earned			<u>3,893</u>
-----------------	--	--	--------------

Total Revenues			25,159,070
----------------	--	--	------------

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	2,396,745
Usage Tax		11,447,716
Tangible Personal Property Tax		2,754,167
Web Renewals		30,220

Licenses, Taxes, and Fees-

Delinquent Tax		190,407
Legal Process Tax		95,555
Affordable Housing Trust		<u>145,116</u>
		17,059,926

Payments to Fiscal Court:

Tangible Personal Property Tax		908,395
Delinquent Tax		47,765
Deed Transfer Tax		469,659
Miscellaneous		<u>394</u>
		1,426,213

Payments to Other Districts:

Tangible Personal Property Tax		3,860,791
Delinquent Tax		<u>74,635</u>
		3,935,426

Payments to Sheriff		3,270
---------------------	--	-------

Payments to County Attorney		62,926
-----------------------------	--	--------

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
DOROTHY OWENS, COUNTY CLERK
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS
For The Year Ended December 31, 2008
(Continued)

Expenditures (Continued)

Operating Expenditures:

Other Expenses-

Refunds	\$	115,330	
Bad Debt		980	
Election Expenses		1,740	
Transfer of Prior Year Funds		3,088	
Miscellaneous		180	
Libraries and Archives		19,160	
		<u>19,160</u>	\$ 140,478

Total Expenditures		\$	<u>22,628,239</u>
--------------------	--	----	-------------------

Net Revenues			2,530,831
--------------	--	--	-----------

Payments to State Treasurer:

75% Operating Fund		1,933,412	
25% County Fund		<u>597,419</u>	<u>2,530,831</u>

Balance Due at Completion of Audit		\$	<u><u>0</u></u>
------------------------------------	--	----	-----------------

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
DOROTHY OWENS, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2008

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2008	\$ 444,376	\$	\$ 444,376
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	1,933,412		1,933,412
Fees Paid to State - County Funds (25%)		597,419	597,419
Total Funds Available	2,377,788	597,419	2,975,207
<u>Expenditures</u>			
Warren County Government		597,419	597,419
Personnel Services-			
Clerk's Salary	100,456		100,456
Clerk's Expense Allowance	3,600		3,600
Clerk's Training Incentive	3,525		3,525
Deputies' Salaries	886,125		886,125
Employee Benefits-			
Employer's Share Social Security	70,923		70,923
Employer's Share Retirement	147,008		147,008
Employer's Paid Health Insurance	84,056		84,056
Employer's Paid Life Insurance	526		526
Worker's Compensation	3,296		3,296
Contracted Services-			
Computer Equipment	225,759		225,759
Copy Machines	16,588		16,588
Printing and Binding	21,169		21,169
Microfilming	69		69
Materials and Supplies-			
Office Supplies	25,795		25,795
Other Charges-			
Clerk and Deputy Bonds	4,408		4,408
Conventions and Travel	6,018		6,018
Postage	25,000		25,000

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
DOROTHY OWENS, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
For The Year Ended December 31, 2008
(Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Expenditures (Continued)</u>			
Other Charges- (Continued)			
Miscellaneous	\$ 1,478	\$	\$ 1,478
Books and Maps	1,733		1,733
Office Repair	910		910
Software License	1,056		1,056
Office Equipment Maintenance	2,047		2,047
Insurance	4,786		4,786
Tax Bill Preparation	11,771		11,771
Telephone	5,229		5,229
Capital Outlay-			
Office Equipment	2,821		2,821
Office Furnishings	4,014		4,014
Total Expenditures	<u>1,660,166</u>	<u>597,419</u>	<u>2,257,585</u>
Fund Balance - December 31, 2008	<u>\$ 717,622</u>	<u>\$ 0</u>	<u>\$ 717,622</u>

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the County Clerk as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2008

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

WARREN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

WARREN COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2008
 (Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives during 2004. The unexpended balance as of December 31, 2007 was \$19,160. No funds were received during calendar year 2008. Funds totaling \$19,160 were expended during the year. The unexpended grant balance was \$0 as of December 31, 2008.

Note 5. Lease

The Clerk's office was committed to the following lease agreements as of December 31, 2008:

Item Purchased	Monthly Payment	Term of Agreement	Ending Date	Remaining Balance December 31, 2008
Software License and Service	\$ 4,950	60 months	1/14/2010	\$ 64,350
Hardware Rental and Service	13,843	60 months	1/14/2010	179,996
Totals	<u>\$ 18,793</u>			<u>\$ 244,346</u>

Note 6. Subsequent Events

On July 22, 2009, the County Clerk's office entered into new lease agreements with Software Management for \$904,620 for 60 months for software license, hardware rental, and service. The lease agreements with Software Management with the ending dates of January 14, 2010 rolled into these new lease agreements. The new lease agreements have ending dates of July 21, 2014. As of July 22, 2009, the County Clerk's office new monthly payment will be \$15,077.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Michael O. Buchanon, Warren County Judge/Executive
Honorable Dorothy Owens, Warren County Clerk
Members of the Warren County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements - regulatory basis of the Warren County Clerk for the year ended December 31, 2008, and have issued our report thereon dated December 18, 2009. The County Clerk's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Warren County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Warren County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Warren County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations as items 2008-04 and 2008-05 to be significant deficiencies in internal control over financial reporting.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Warren County Clerk's financial statements for the year ended December 31, 2008, are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2008-01, 2008-02, and 2008-03.

The Warren County Clerk's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Clerk's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Warren County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

December 18, 2009

COMMENTS AND RECOMMENDATIONS

WARREN COUNTY
DOROTHY OWENS, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2008

STATE LAWS AND REGULATIONS:

2008-01 The County Clerk Should Submit All Official Checks To Vendors

KRS 64.850 states it “shall be unlawful for any county official to deposit public funds with individual or private funds in any bank or other depository or for any such official to withdraw public funds for any purpose other than that for which they were received and deposited.” On June 20, 2008, the County Clerk endorsed an official check in the amount of \$1,116 written to a vendor from the County Clerk’s operating fund with the State Treasurer. The check was written to a vendor for official expenditures of the County Clerk’s office. The County Clerk should never endorse any official check that does not list her as payee. We recommend the County Clerk submit all official checks to the vendors listed as payee.

County Clerk’s Response: I cashed this check for an artist vendor who did the art work on the basement wall. She was going out of town and did not have a bank account at that time. I didn’t think I was doing anything wrong and I do not make it a habit of doing this.

2008-02 The County Clerk Should Maintain Proper Documentation Of Compensatory Time

KRS 337.285(1) requires employers to compensate employees for any hours worked “in excess of forty (40) hours in a workweek at a rate of not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed.” During testing of payroll, we noted the County Clerk’s employees utilize compensatory time. However, we were unable to determine if compensatory time is properly calculated because the payroll records did not support the hours of compensatory time awarded by the County Clerk. The time reports do not document how compensatory time awarded by the County Clerk is calculated or if time worked in excess of 40 hours is compensated by awarding one and one-half (1-1/2) times the actual hours worked. No overtime was paid. The County Clerk’s office may not be in compliance with KRS 337.285. We recommend the County Clerk maintain proper documentation of compensatory time and utilize compensatory time or pay overtime in accordance with KRS 337.285. We have referred this matter to the Kentucky Department of Labor for further investigation.

County Clerk’s Response: I am keeping more accurate records on compensation time. My employees are salary. They work from 8:30 a.m. to 4:30 p.m. One hour for lunch and breaks.

WARREN COUNTY
 DOROTHY OWENS, COUNTY CLERK
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2008
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

2008-03 The County Clerk Should Have Expended Funds For Allowable Purposes

In Funk vs. Milliken, 317 S.W. 2d 299 (KY 1958), Kentucky's highest court reaffirmed the rule that county fee officials' expenditures of public funds will be allowed only if the expenditures are necessary, adequately documented, reasonable in amount, beneficial to the public, and not predominantly personal in nature. The County Clerk expended \$503 for candy, \$480 for civic membership dues, and \$2,404 for ink pens displaying the County Clerk's name. We recommend the County Clerk deposit personal funds in the amount of \$3,387 into her current Fee Account to reimburse the County Clerk's operating fund with the State Treasurer for these disallowed expenditures. We also recommend the County Clerk's office expend funds for official purposes and that these expenditures be necessary, adequately documented, reasonable in amount, beneficial to the public, and not predominantly personal in nature.

County Clerk's Response: 1. The \$503 for candy, this had been paid for in the past and was set on the counter, for customer and children. When Frankfort sent the purchase order back and told us it was not an allowable item, it was the first time I had heard of this so the statement had to be paid for, so I wrote a personal check. 2. I do not understand why the Chamber of Commerce dues are not an allowable item. Everyone I have talked to says it has been a budgeted item.

Auditor's Reply: Dues to the Chamber of Commerce are primarily personal in nature and are therefore not a reasonable or necessary expense of the office of the County Clerk as discussed in Funk vs. Milliken.

County Clerk's Response: 3. The pens supply for my office, in October of 2008 the state department did my audit for 2007. At that time I had already purchased my ink pen supply for the year 2008. I do not feel this is something I should pay for, because you did not inform my office about the ink pens until October of 2008. One invoice dated 3/24/08 was purchased with no name on them, for I used the pens in the Election that year (May and November) after the election they were used in my office because we did not have an Election for 2009.

Auditor's Reply: The pens that had been purchased in 2008 prior to our audit in October of 2008 should have been reimbursed once the Clerk was informed about the unallowability of the 2007 expenditure. The Clerk knew at that time that additional pens had been purchased that would be deemed personal in nature by the auditors.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:

2008-04 The County Clerk Should Implement Control Procedures Over Payroll

Implementation of controls over payroll is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, implementation of controls protects employees in the normal course of performing their daily responsibilities.

WARREN COUNTY
DOROTHY OWENS, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2008
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:
(Continued)

2008-04 The County Clerk Should Implement Control Procedures Over Payroll (Continued)

A lack of adequate controls exists over payroll in the County Clerk's office. During our review of internal controls, we noted payroll reports prepared by the state are not reviewed to determine proper deductions are being made; employees are not properly terminated when they leave the employment of the County Clerk's office; and health insurance invoices are not reconciled to the payroll deduction reports prepared by the state.

The lack of adequate controls over payroll resulted in: a) proper deductions for retirement not being made from one employee's check after she was made full time; b) one individual who has not been employed by the County Clerk's office for at least two years still being listed on payroll reports; c) \$1,393 for employer's share of health insurance being paid on one employee when only \$900 should have been paid by the employer; and d) overpayments to the health insurance provider.

We recommend the County Clerk require: a) payroll reports be reviewed for proper deductions for new employees or when current employees make changes to their deductions; b) employees who leave the employment of the County Clerk's office be properly terminated; and c) invoices from the health insurance provider be reconciled to the payroll deduction reports to determine that the County Clerk is only paying for employees covered by health insurance and is only paying \$300 per employee for employer's share of health insurance.

County Clerk's Response: a. For the two employees that did not get proper deduction for retirement. On one employee forms were sent in but somehow one month was not accounted for. It has been corrected and money was sent to the Kentucky Retirement System. b. All persons that are not employed have been terminated. Employee was going to come back part-time. c. My office was aware of this error and we were working on getting it corrected from the insurance company. It took several months for the insurance company to refund the money. (refund was made in 2009)

2008-05 The County Clerk Lacks Segregation Of Duties And Has No Written Policy Over Accounts Receivable

A segregation of duties over accounts receivables or implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

WARREN COUNTY
DOROTHY OWENS, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2008
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:
(Continued)

2008-05 The County Clerk Lacks Segregation Of Duties And Has No Written Policy Over Accounts Receivable (Continued)

A lack of adequate segregation of duties exists over accounts receivable in the County Clerk's office. During our review of internal controls, we noted the County Clerk has no written policy for the allowance or collection of accounts receivable. We reviewed accounts receivable journals and noted employees who allow charges are also responsible for the collection of the accounts receivable. No one independent of accounts receivable maintenance verifies the validity of or subsequent collection of charges. The lack of oversight over accounts receivable allowed for employees of the County Clerk to charge motor vehicle taxes and licenses on April 2, 2008, April 4, 2008, August 15, 2008, and September 16, 2008. These charges were subsequently paid on August 21, 2008, July 23, 2008, August 28, 2008, and October 28, 2008. Charging these motor vehicle taxes and licenses allowed customers to avoid the penalties and interest prescribed by motor vehicle registration laws.

We recommend the County Clerk require: a) proper authorization for accounts receivable charges and collections, b) reconciliation of accounts receivable by someone independent of accounts receivable charges and collections, and c) the adoption of a written policy over accounts receivable that details allowable charges and collection procedures.

County Clerk's Response: Policy is being corrected.

